KEYS TO **GROWTH**

2003 ANNUAL REPORT

ComCoTec
SXC
Systems Xcellence

SYSTEMS XCELLENCE INC. (SXC) IS A LEADING PROVIDER OF PHARMACY DISPENSING AND BENEFITS PROCESSING SOLUTIONS TO THE NORTH AMERICAN PHARMACEUTICAL BENEFITS INDUSTRY. Offering an end-to-end pharmacy benefits management suite, our solutions address the needs of virtually every participant within today's pharmacy healthcare benefit delivery system. Our customers include many of the foremost organizations in the pharmaceutical supply chain, such as managed care organizations (MCOs), pharmacy benefit managers (PBMs), retail pharmacy chains and other healthcare intermediaries.

Combining web-enabled, real-time transaction processing technologies with business consulting expertise in the healthcare benefits and pharmacy industry, our comprehensive product and service offerings are designed to maximize efficiency in pharmacy benefit and pharmacy operations management.

Headquartered in Milton, Ontario, SXC employs more than 200 professionals in its offices in Milton, Ontario; Lombard, Illinois; Scottsdale, Arizona and Victoria, British Columbia. The company's shares are traded on the Toronto Stock Exchange under the symbol SXC. SXC can be found on the Internet at www.sxc.com.

ANNUAL HIGHLIGHTS

(THOUSANDS, EXCEPT EPS)

	2003	2002 (1)	2001 (1)	2000 (1)
Software License	$5,910	$5,839	$16,193	$16,530
Services	$18,527	$12,494	$4,595	$6,726
Maintenance	$12,952	$11,682	$4,029	$2,454
Hardware	$0	$0	$380	$956
ASP / Switching	$10,258	$9,069	$18	$0
Total Revenue	**$47,647**	**$39,084**	**$25,215**	**$26,666**
Gross Profit	**$25,260**	**$21,658**	**$18,942**	**$17,617**
%	53%	55%	75%	66%
EBITDA	**$10,048**	**$1,107**	**($1,636)**	**$3,308**
%	21%	3%	-6%	12%
Income (loss) before goodwill amortization	**$2,892**	**($5,046)**	**($3,453)**	**$2,201**
%	6%	-13%	-14%	8%
Net Income (loss)	**$2,892**	**($16,114)**	**($3,453)**	**$2,201**
%	6%	-41%	-14%	8%
Earnings per Share	**$0.07**	**($0.49)**	**($0.17)**	**$0.10**
Working Capital	**$9,297**	**($118)**	**$16,737**	**$13,258**
Backlog (year-end)	**$70,450**	**$61,800**	**$52,000**	**$20,900**
Common Shares	**40,530**	**38,881**	**21,017**	**20,917**

(1) Restated, note 1(i) (iii) to consolidated financial statements

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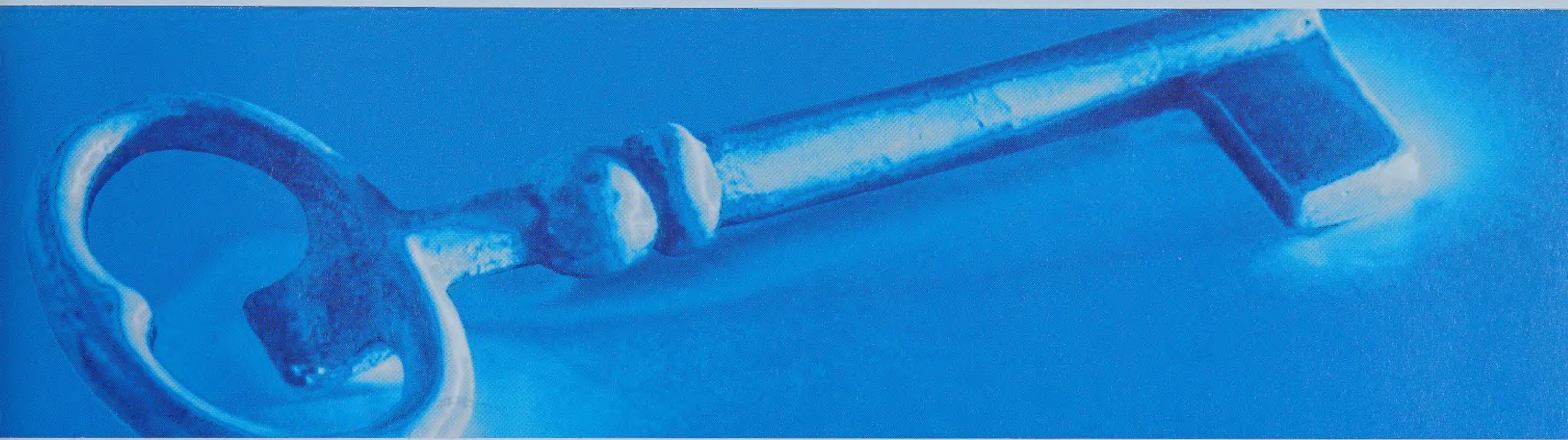
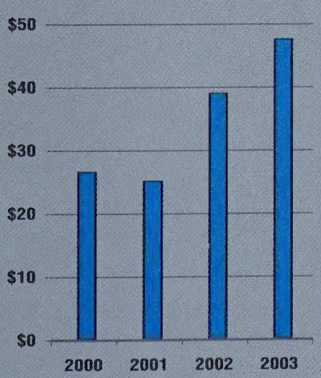
OPERATIONAL HIGHLIGHTS

- Record revenue of $47.6 million, a 22% increase over FY 2002
- Net income of $2.9 million, or $0.07 per share, compared to a net loss of $16.1 million, or ($0.49) per share, in FY 2002
- New contracts that included Sierra Health Services, Blue Cross Blue Shield of Arizona, HealthExtras, Pharmaceutical Care Network, First Health Group and CIGNA of Arizona
- Strengthened management team with strategic additions to both our payer and provider business lines
- Key product development milestones with the roll-out of RxEXPRESS® for Windows® and InformedRx, targeted at the provider and payer markets, respectively



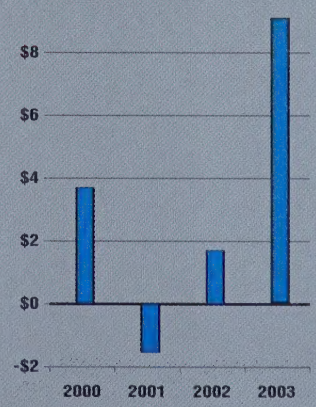
FINANCIAL GROWTH

REVENUE
($ MILLIONS)



NET INCOME (LOSS)
($ MILLIONS)

CASH FROM OPERATIONS
($ MILLIONS)



GROWTH THROUGH LEADERSHIP

LETTER TO THE SHAREHOLDERS

I am pleased to report that SXC exceeded its financial targets in FY 2003 as the Company continued to deliver on the key elements of its growth strategy. Driven by the ongoing expansion of our transaction-based Application Service Provider (ASP) business, we earned record revenue, net income and cash flow from operations. To increase our presence in both our provider and payer target markets, we added depth to our management team and expanded our product offerings with the launch of our retail pharmacy oriented RxEXPRESS® for Windows® Version 2.0 and launched the development of InformedRx for the managed care market. During the year we refinanced our long-term debt, and coupled with our strong financial performance, we now possess a solid balance sheet from which we can grow our business. Now, more than ever, SXC has the financial resources, management expertise and robust product suite to capitalize on the expanding demand for cost-saving IT solutions in the healthcare marketplace.

Amidst a challenging market for software vendors, in FY 2003 SXC's revenue was $47.6 million, an increase of 22% from FY 2002, while our net income was $2.9 million, or $0.07 per share, up significantly from a loss of $16.1 million ($ 5.0 million before goodwill amortization) in FY 2002. Cash flow from operations, an important measure of our ability to fund future growth initiatives, was $8.9 million in FY 2003, an increase of $7.0 million from FY 2002. At the end of the fiscal year, SXC had $10.1 million in cash compared to $4.8 million at the end of FY 2002. Also during FY 2003, SXC announced a US$7.6 million debt refinancing. The debt refinancing was a significant milestone for SXC as the more favorable terms of the new agreement are a testament to the progress we made over the last two years and reflects well on our promising outlook.

> "OUR PRIMARY FOCUS REMAINS ON GROWING OUR BASE OF RECURRING REVENUES AS IT PROVIDES GREATER TOP-LINE VISIBILITY AND YIELDS CONSISTENT AND GROWING MARGINS QUARTER-TO-QUARTER."

In the past 12 months, the escalating cost of prescription drugs in the U.S. has drawn the attention of government, media, employers and healthcare officials. The rapid rise of these costs has already become the key concern to all organizations involved in the delivery of prescription drugs - from the manufacturer to the patient. Retail pharmacies, pharmacy benefit managers (PBMs) and healthcare benefit payers (such as managed care organizations, or MCOs) continue to explore, and invest in, opportunities to reduce the cost and enhance the efficiency of delivering prescription drugs to patients.

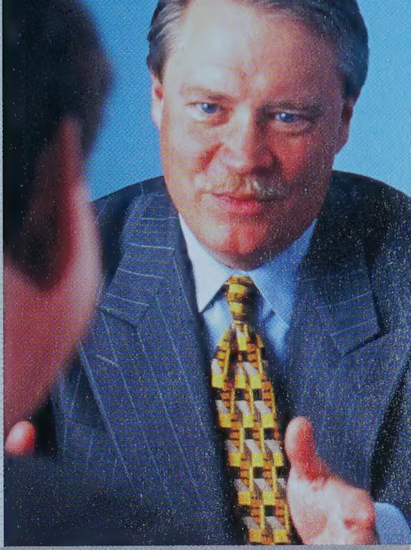
GROWTH STRATEGY

SXC's strategy to capitalize on this market opportunity and to achieve its growth objectives is three-fold. First, with our broad suite of applications, we will aggressively pursue opportunities in the mid-tier MCO market to increase our recurring transaction processing ASP revenue. Second, we will deliver off-the-shelf licensed software and/or custom solutions to top-tier customers that can yield higher margins and result in long-term relationships. Third, we will expand our addressable market via strategic alliances, mergers and/or acquisitions.

Our primary focus remains on growing our base of recurring revenues as it provides greater top-line visibility and yields consistent and growing margins quarter-to-quarter. As such, the value of the transactions processed in our ASP data centre grew 14% in FY 2003.

OUR R&D EFFORTS IN FY 2003 ARE EXPECTED TO PAY DIVIDENDS THIS YEAR. ON MARCH 1, 2003, WE LAUNCHED INFORMEDRX, AN ALTERNATIVE TO TRADITIONAL PHARMACY BENEFIT MANAGEMENT OFFERINGS FOR MCO CUSTOMERS.

GORDON S. GLENN



These ASP solutions remain in large demand as they allow businesses to seek outsourced solutions to help control costs and to deliver an attractive return on investment (ROI) while still maintaining excellent levels of client service. Our backlog of contracted business, sales pipeline, and reputation as a leading provider of business process outsourcing solutions (BPO) to the pharmacy benefit industry, coupled with the increasing utilization of pharmaceuticals, should continue to support appreciable ASP transaction growth for the future.

NEW PRODUCT / SERVICE OFFERINGS

Our R&D efforts in FY 2003 are expected to pay dividends this year. On March 1, 2003, we launched InformedRx, an alternative to traditional pharmacy benefit management offerings for MCO customers. We believe that our established presence as a leading provider of healthcare IT solutions to many of these MCO customers together with a competitive, flexible and clear economic solution will be primary drivers to build this business. To date, we have laid the foundation of this business by negotiating nationwide reimbursement contracts for pharmaceuticals at more than 45,000 pharmacies in the U.S. to manage third-party payments to these pharmacies on behalf of MCOs. This offering will make us more competitive in the marketplace and become a new source of recurring revenue. We expect to begin generating revenue from this business in the second half of FY 2004.

We have also taken the necessary steps to address the increasing demand by retail pharmacies for modern, work-flow based pharmacy management systems that can help process the escalating dispensing workload, guard against medication errors and facilitate third-party insurance reimbursement. We made significant progress on this front during FY 2003 with the launch of RxEXPRESS® for Windows® Version 2.0. The new version supports multiple pharmacy installations and includes the necessary functionality to meet the growing demands at the retail level. We have strengthened our sales and marketing force for the product suite and anticipate that it will be a future source of growth for SXC.

In summary, the various participants in our marketplace are under significant pressure to reduce the cost and improve the effectiveness of their healthcare delivery processes. Thus they are increasingly seeking innovative, flexible, robust and HIPAA-compliant information technology solutions in order to be competitive, improve care, reduce medication errors, satisfy their members and meet government mandates. In order to reduce capital spending, many of these organizations are exploring the outsourcing of their transaction processing requirements to companies such as SXC. We are confident that SXC is well positioned to address these challenges and capitalize on this growing market opportunity.

I would like to thank the entire team at SXC for their commitment and hard work toward meeting our objectives in FY 2003, during what was an especially challenging year in our global economy. Our future remains promising and we are confident that our markets are sound and our long-term strategy is the right one.

Sincerely,

Gordon S. Glenn
President and Chief Executive Officer

There were over **3.5 billion pharmacy prescriptions** written and filled in 2002 in the U.S. alone, with a collective retail value in excess of US$192 billion. The cost of prescription drugs grew by double-digits for the **seventh consecutive year**, with industry experts predicting expenditures of more than $380 billion by 2011. At the same time, **drug utilization** rates, and the resulting volume of prescriptions, is rising by **10-15% annually** due to the aging population, the release of new blockbuster and life-style drugs, **direct-to-consumer advertising** by **pharmaceutical** manufacturers and the expectation of expanded drug benefits to seniors under the U.S. Government's **Medicare** program.

MARKET OPPORTUNITY

OPENING THE DOOR TO MARKETS

Health plan sponsors including managed care organizations, self-insured employer groups, and government agencies are seeking alternatives to the traditional outsourcing of their pharmacy benefits management to third-party pharmacy benefit managers (PBMs). Many are choosing to develop and manage their own formularies, and enter into relationships with retail pharmacies, manufacturers and clinical programs, rather than deal directly with a traditional PBM. Thus, they are seeking business and information technology partners to assist in managing their programs.

In FY 2004, SXC will expand its addressable market opportunity from US$2.5 billion to US$4.8 billion by beginning to offer health plan sponsors a wide variety of à la carte pharmacy benefit administrative services. These products will be offered under a unique business model that will feature effective management of drug spend and discernible pricing, through the formation of a wholly-owned subsidiary, InformedRx, Inc. This will be accomplished by leveraging SXC's existing managed care customer base, industry leading technology and robust processing infrastructure.

Specifically, InformedRx will provide health plans, employer groups and government agencies with a menu of customizable products and services that will allow them to maximize their control, flexibility and ROI in providing prescription benefits for their members. Product features include:

informedRx

- CLARITY WITH RESPECT TO MANUFACTURER REBATES AND OTHER SERVICES
- CUSTOMER CONTROL OVER THEIR BENEFIT PLANS AND FORMULARIES
- FOCUS ON MEMBER / PATIENT EDUCATION AND CHOICE

INFORMEDRx OFFERS A WIDE RANGE OF SERVICES TAILORED TO SPECIFIC CUSTOMER NEEDS

Benefit plan design, management & claims adjudication

Specialized reporting and decision support services

Retail pharmacy network reimbursement contracts

Formulary management and clinical services

Pharmaceutical manufacturer contracting and rebate management

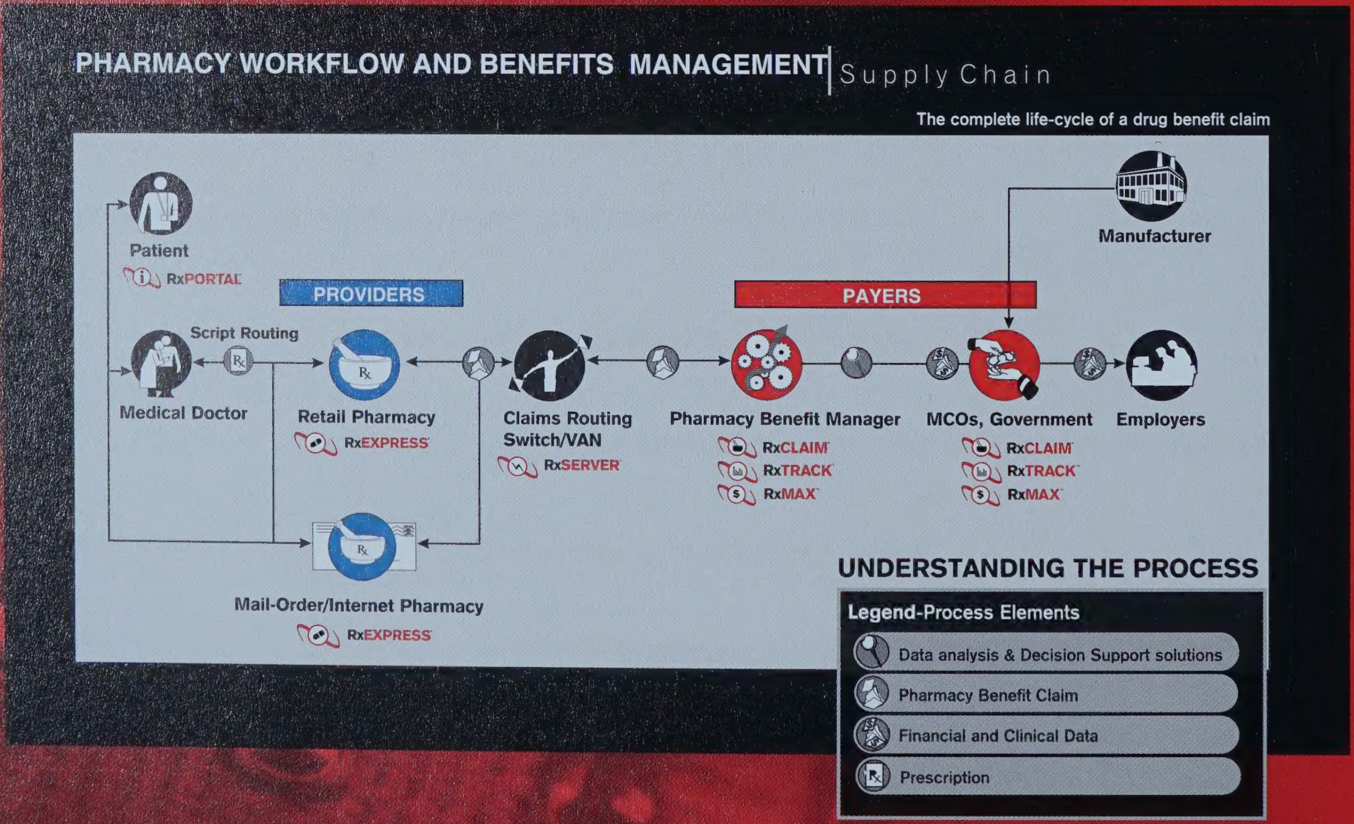
Prescription mail order fulfillment services

Disease management and related clinical programs

SXC SOLUTIONS

SXC SOLUTIONS ARE KEY

SXC'S COMPREHENSIVE SUITE OF SOFTWARE PRODUCTS, TRANSACTION PROCESSING TECHNOLOGIES AND CONSULTING SERVICES PROVIDE THE SINGLE-SOURCE SOLUTION FOR TODAY'S PHARMACY WORKFLOW AND BENEFITS MANAGEMENT SUPPLY CHAIN. OUR SOLUTIONS CAN BE OBTAINED AS SOFTWARE PRODUCTS BUNDLED WITH SYSTEMS IMPLEMENTATION AND CONSULTING SERVICES OR ON AN ASP BASIS, THUS PROVIDING FLEXIBLE DECISION-MAKING TO OUR TARGET MARKETS.



PROVIDERS:

Retail Pharmacy & Mail-Order / Internet Pharmacy

RxEXPRESS®

WHETHER THE ORGANIZATION IS A RETAIL CHAIN, INDEPENDENT OR MAIL ORDER PHARMACY, OR LOCATED WITHIN A HOSPITAL OR OTHER HEALTHCARE CENTER, SXC HAS A COMPREHENSIVE SUITE OF SOFTWARE SOLUTIONS TO MEET THE NEED FOR ELECTRONIC COMMUNICATION AND COMMERCE BETWEEN RETAIL OUTLETS, PATIENTS, DOCTORS, DRUG COMPANIES, AND ALL PARTICIPANTS IN THE PHARMACEUTICAL SUPPLY CHAIN.

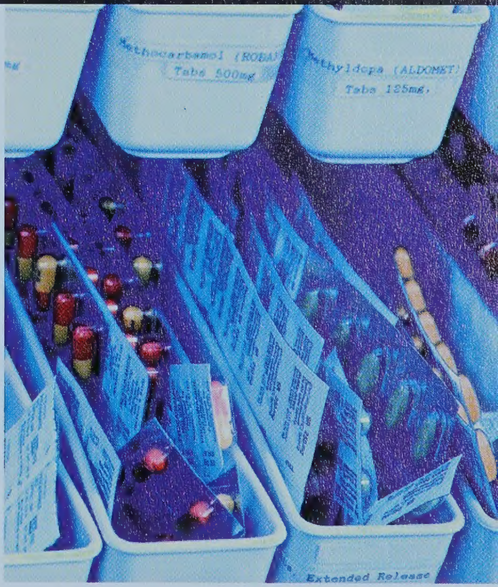
Patient-centric databases ensure the best possible care, while business management tools help achieve the highest levels of efficiency. RxEXPRESS® was developed with a system architecture that is best suited for the rigors of comprehensive prescription fulfillment. The speed, system reliability, central controls, and ease of use with this application are important factors for pharmacists to consider when selecting a pharmacy management system.

While prescription volumes are expected to grow at an rapid rate, the number of pharmacy practitioners will rise only fractionally. SXC's RxEXPRESS® for Windows® (pharmacy management system) is designed to help pharmacies operate more efficiently. A work-to-do-queue and automation interfaces help pharmacists and their technicians manage workflow and leverages proven technology.

THE CLEVELAND CLINIC FOUNDATION

"My sincere thanks to SXC for enabling the Cleveland Clinic Foundation to be one of the first in the industry to launch this exciting Windows-based Central Server, that supports a true open relational database and is fully HIPAA compliant. Nothing else in the retail pharmacy arena comes close to offering this functionality. I've been in the pharmacy software business for 25 years and know sound software (and good technical folks) when I see them. SXC is the right technology platform for the Cleveland Clinic."

- Charles Hauris, Manager, Pharmacy Information Systems



EVANSTON NORTHWESTERN HEALTHCARE

"I have used the RxEXPRESS® system for over 15 years. First as a pharmacy owner and currently as the Director for Evanston Northwestern Healthcare's 10 out-patient pharmacies. I believe that RxEXPRESS® is the premier technology solution to efficiently deliver full-service prescription dispensing, and comprehensively support the demands of managing retail pharmacies. SXC's experience as a provider of software solutions, combined with superior customer service, is a key factor in my maintaining a long term partnership with SXC. I anticipate an even better technology solution from the launch of the RxEXPRESS® for Windows®, next generation pharmacy management system."

- Steven B. Hess, R.Ph., Director, Retail Pharmacy Services

RxCLAIM®
RxTRACK®
RxMAX™

PAYERS

MCOs, Government, Employers

UTILIZING SXC'S SUITE OF SOLUTIONS, MANAGED CARE ORGANIZATIONS, BLUE CROSS AND BLUE SHIELD PLANS, AND OTHER PAYERS ENJOY A NUMBER OF COMPETITIVE ADVANTAGES. KEY AMONGST THESE IS CONTROL OVER THEIR PHARMACY BENEFITS, CLINICAL PROGRAMS INCLUDING REBATE MANAGEMENT, AND THEIR IMMEDIATE ACCESS TO DATA.

Our business intelligence solutions help payers translate data into meaningful and useful information. Using SXC's broad suite of applications, payers can manage their important relationships with drug manufacturers and link their members' doctors through our electronic prescribing system.

Many payers are looking for better ways to control drug spend while providing their members with a higher quality pharmacy benefit. Issues that they are faced with include: the added cost of employing a third party organization to manage benefit transactions; the high cost of brand drugs versus generics; the desire to maximize rebates from drug manufacturers through direct relationships; and speed to market to implement changes in benefit design.

BLUE CROSS BLUE SHIELD OF ARIZONA

"Throughout our relationship, SXC has demonstrated its commitment to its customers with a steady issue of unique product releases. Their applications have given us immediate access to and control of our pharmacy benefits information, which provides us with a greater ability to customize our solutions."

- Chris Hogan, R.Ph., Vice President of Pharmacy Benefit Management at BCBS Arizona.

SIERRA HEALTH SERVICES, INC.

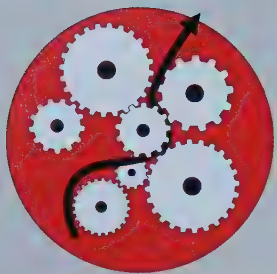
"RxTRACK® has proven to be an invaluable tool in our efforts to track and predict our medical expenditures based upon our prescription drug utilization and cost. In the four years since our relationship with SXC began, we have come to rely on their flexible solutions to meet the needs of our managed care business."

- Darren Sivertson, Vice President and Chief Financial Officer of Sierra's Managed Care Division.

PHARMACEUTICAL CARE NETWORK

"As we bring rebate management in-house, we require an application that has both the performance and functionality to integrate with RxCLAIM®, our claims processing application. The combination of RxCLAIM™ and RxMAX™ will allow us to transition our rebate processing on one integrated platform without additional interfacing outlays. Ultimately, RxMAX™ will allow us to build more efficient relationships with pharmaceutical manufacturers, while simultaneously providing the flexibility to support a growing volume of transactions. We look forward to exploring other opportunities to work with SXC in the future."

- John T. Skhal, CEO of PCN.



PAYERS

Pharmacy Benefit Managers

RxCLAIM®
RxTRACK®
RxMAX™

OUR SOLUTIONS PROVIDE BOTH LARGE AND SMALL PHARMACY BENEFIT MANAGERS (PBMs) AND OTHER E-HEALTHCARE COMPANIES WITH A FULLY FUNCTIONAL ON-LINE TRANSACTION PROCESSING SYSTEM DESIGNED FOR MAXIMUM CONTROL AND FLEXIBILITY.

Information analysis and decision support tools provide the information when and where it is needed. Instant on-line adjudication, trouble-free claims management, rebate-handling as well as cost-effective review, payment and billing support are delivered through SXC's software solutions, implementation services, development and integration services.

Nearly one half of all prescriptions in the United States are managed by PBMs. However, the industry is not without issue. The cost of drugs continues to escalate at a rapid rate and legislative requirements will continue to drive change within the marketplace. SXC provides a solid foundation for our PBM clients with a suite of software (RxCLAIM®, RxTRACK®, RxMAX™) and consulting services that enable them to be responsive and innovative to these changes.

HEALTHEXTRAS

"The dedicated team of associates at HealthExtras and SXC are responsible for making this implementation a success. As a result, HealthExtras is now providing even better PBM functionality, features and service to our customers and members. We look forward to expanding our relationship with SXC as we continue to grow our business."

- David Blair, Chief Executive Officer of HealthExtras.

OVERVIEW

Systems Xcellence Inc. (or "the Company") is a leading provider of healthcare information technology solutions to the pharmaceutical supply chain in the United States. The Company's product offerings include a wide range of Application Service Provider (ASP) solutions, standardized and customized software applications, and professional services to payers and providers of healthcare services. Payers of pharmacy healthcare services include managed care organizations, health insurance companies, and intermediaries such as pharmacy benefit management (PBM) organizations. Providers of pharmacy healthcare services include primarily large and small retail and mail-order pharmacy chains. The Company's products and services empower these organizations to more effectively manage their costs and improve the efficiency of their operations.

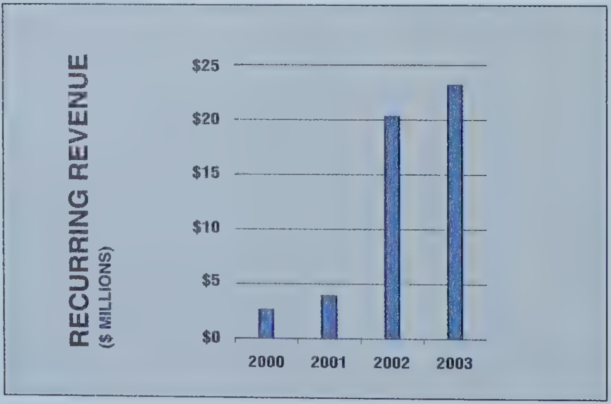
RESULTS OF OPERATIONS

The discussion and analysis that follows relates to the results of operations of the Company and should be read in conjunction with the consolidated financial statements and accompanying notes for the years ended February 28, 2003 and February 28, 2002.

For the Fiscal Year Ended February 28, 2003 compared to the Fiscal Year Ended February 28, 2002

REVENUE

Consolidated revenue increased $8.5 million or 21.7% in fiscal 2003 to $47.6 million from $39.1 million in fiscal 2002. This increase consists of a $1.2 million increase in ASP/switching revenue, a $1.3 million increase in maintenance revenue, and a $6.0 million increase in integration and consulting services revenue. The increase in integration and consulting revenue is largely the result of work performed for one customer under a licensed software and maintenance contract.



In fiscal 2003, revenue of a recurring nature, consisting of ASP/switching revenue and maintenance revenue, was $23.2 million or 48.7% of consolidated revenue, compared to $20.8 million or 53.1% of consolidated revenue in the prior fiscal year. The decline in recurring revenue on a percentage basis is primarily the result of significantly increased integration and consulting revenue which the Company does not treat as recurring unless a long-term agreement is in place.

GROSS PROFIT

Gross profit for fiscal 2003 was 53.0%, compared to 55.5% in the prior fiscal year. This decrease in gross profit margin reflects an increase during the year in certain custom software development under a licensed software arrangement and integration and consulting activities which tend to have lower margins compared to standard licensed software revenue.

PRODUCT DEVELOPMENT COSTS

Product development costs in fiscal 2003 were $5.5 million, representing 11.6% of revenue, compared to $8.1 million or 20.8% of revenue in fiscal 2002. The reduction in product development costs is primarily a result of the restructuring effort in the first quarter of fiscal 2002 and an improved utilization of product development resources on integration and consulting activities, as reflected in the $6.0 million increase in revenue from integration and consulting. Throughout the year, the Company released updated versions of its products according to schedules designed to meet customer requirements.

SELLING, GENERAL AND ADMINISTRATION COSTS

Selling, general and administrative costs in fiscal 2003 were $9.7 million or 20.3% of revenue, compared to $10.9 million or 27.9% of revenue for the prior year. The decline was due primarily to reduced travel, communications and facilities costs, as a result of the restructuring efforts in fiscal 2002 following the acquisition of ComCoTec, Inc., and the continued focus on cost control.

INTEREST INCOME AND EXPENSE

Interest income decreased from $0.5 million in fiscal 2002 to $0.1 million in fiscal 2003, primarily due to reduced average cash balances available for investment and a lower interest rate environment.

INTEREST INCOME AND EXPENSE (CONTINUED)

Interest expense decreased from $2.3 million in fiscal 2002 to $1.6 million in fiscal 2003. This decrease was primarily the result of reduced interest expense incurred under the Software Lease and License Agreement with GATX Capital (Canada), Inc. (GATX) due to the reduction in outstanding principal, and to reduced interest expense under the Company's capital lease obligations.

AMORTIZATION

During fiscal 2003, amortization increased $0.7 million primarily due to the expensing in the fourth quarter of fiscal 2003 of the remaining deferred costs established when the company completed its GATX transaction in December 2000. The expense was in connection with the refinancing of the Company's long-term debt.

RESTRUCTURING CHARGE

During fiscal 2002, the Company took a restructuring charge of $1.5 million following the acquisition of ComCoTec, Inc. in March 2001.

WRITE-DOWN OF CAPITAL ASSETS

During fiscal 2003, the Company wrote-down $0.4 million of the remaining value of certain computer equipment purchased in connection with its Scottsdale, Arizona facility. The Company had previously purchased the equipment for production purposes in fiscal 2001, but has used it primarily in a test capacity since fiscal 2002. Since the Company no longer expects to utilize the equipment in a production environment in the foreseeable future, the write-down was deemed necessary.

TAX PROVISION

For fiscal 2003, the Company's provision for taxes was $0.2 million, compared to nil in fiscal 2002. This increase is primarily for federal alternative minimum tax requirements and for income tax in certain states in the United States, where it currently does business and is not otherwise able to utilize its loss carry forwards.

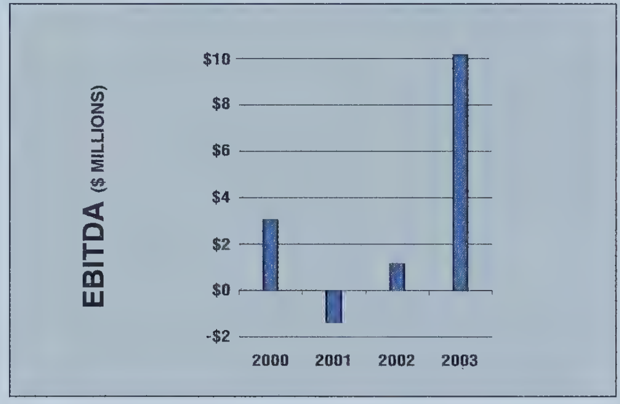
AMORTIZATION OF GOODWILL

The CICA has issued new guidance on the accounting for business combinations and for goodwill and other intangible assets. Under the new standards, effective March 1, 2002 the Company has ceased amortizing goodwill, subject to an annual impairment test. During fiscal 2002, the Company amortized $11.1 million of goodwill resulting from the ComCoTec acquisition.

The new accounting pronouncements and the results of the first annual impairment review are more fully described in note 1(f) to the fiscal 2003 consolidated statements.

EARNINGS

For fiscal 2003 the Company reported net income of $2.9 million or $0.07 per share, compared to a net loss of $16.1 million or ($0.49) per share for fiscal 2002. The $19.0 million improvement in net income is primarily due to a $8.6 million increase in revenue, $11.1 million elimination of goodwill amortization, a $2.7 million reduction in overhead costs, a $5.0 million increase in project costs, and the fact that fiscal 2002 included $1.5 million in restructuring costs.



QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain unaudited results of operations data for the eight quarters ended between May 31, 2001 and February 28, 2003. The information for each quarter has been prepared on the same basis as the consolidated financial statements appearing elsewhere in this report and, in the opinion of management, includes all adjustments necessary for a fair presentation of the results of operations for such periods. Historical results are not indicative of the results to be expected in future, and the results of the interim periods are not indicative of results of any future period.

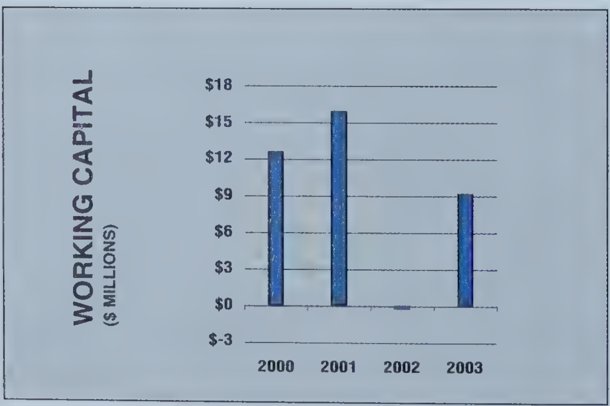
The Company's operating results have varied on a quarterly basis during a relatively short comparative operating history and may fluctuate significantly in the future. In addition, the results of any quarter do not indicate results to be expected for a full fiscal year. Finally, the Company's annual or quarterly results of operations may be below the expectations of public market analysts or investors, in which case the market price of the Company's common stock could be materially adversely affected.

Three Months Ended	May 31 2001[1]	August 31 2001[1]	November 30 2001[1]	February 28 2002[1]	May 31 2002	August 31 2002	November 30 2002	February 28 2003
	(in thousands, except per share information)							
Revenues	8,033	9,027	10,610	11,414	11,069	11,377	11,561	13,639
Gross Profit	4,171	4,991	5,832	6,707	6,151	5,871	5,907	7,331
%	52%	55%	55%	59%	56%	52%	51%	54%
Income (loss) before goodwill amortization	(5,353)	(965)	407	867	328	482	705	1,377
Net income (loss)	(8,121)	(3,732)	(2,360)	(1,901)	328	482	705	1,377
%	-101%	- 41%	-22%	-17%	3%	4%	6%	10%
Income (loss) per share – basic and fully-diluted[2]	(0.39)	(0.12)	(0.06)	(0.05)	0.01	0.01	0.02	0.03

[1] Restated per note 1 (i) (iii) to the consolidated financial statements
[2] Quarterly share counts vary significantly in fiscal 2002

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2003, the Company had a working capital position of $9.3 million and net cash and short-term investments of $10.1 million, compared with negative $0.1 million of working capital and $4.8 million of cash and short-term investments at February 28, 2002. The $9.4 million improvement in the Company's working capital position consisted of a $5.3 million increase in its cash balances and short-term investments, a $2.0 million increase in accounts receivable, and a $5.2 million reduction in the current portion of long-term liabilities. These changes were offset by the $0.7 million reduction in the current portion of its long-term receivable, the $2.1 million increase in deferred revenue and the $0.2 increase in accounts payable. The increase in cash and the reduction in the current portion of long-term liabilities were primarily the result of the new credit agreement described herein.



On December 27, 2002, the Company entered into a six-year, US$7.6 million credit agreement with MCG Capital Corp., Inc. (MCG). In connection with this term loan agreement, the Company also received an initial US$1.0 million revolving line of credit that may be increased over the term of the loan, subject to the Company's satisfying certain indebtedness conditions.

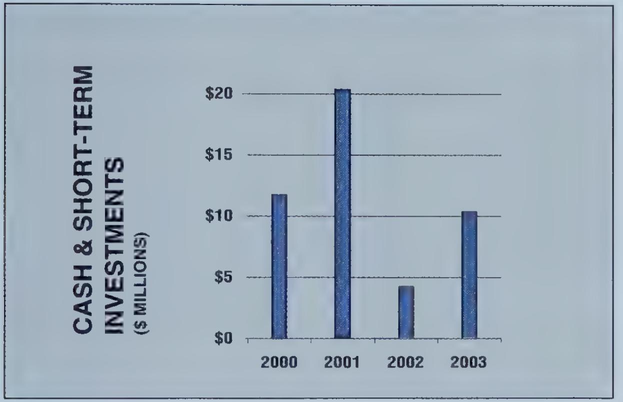
Proceeds of the term loan were used to repay the outstanding indebtedness with GATX, cancel all 1,185,267 warrants held by GATX, and for general working capital purposes. In exchange for the repayment to GATX, the Company reacquired the intellectual property of certain software previously sold to GATX under two earlier sale and leaseback arrangements.

The six-year term loan is structured as interest-only payments for the first two years, equal quarterly principal payments for the following four years, with the remaining principal balance due at maturity. The interest rate used to determine interest payments under the term loan and line of credit are floating, performance and market based rates which are capped for the first three years. The Company has the right to prepay the term loan at any time, subject to a 5% prepayment penalty during the first two years. Also in connection with the credit agreement, the Company issued 1,250,000 warrants with a five-year expiration period and a strike price of $0.64. As a result of the deferral of principal payments, all principal due under the loan is reflected in the long-term liabilities section of the balance sheet.

The Company believes that cash from operating activities together with cash on hand is sufficient to fund anticipated working capital, planned capital expenditures and required debt service payments over the next twelve months.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

In fiscal 2003 the Company generated $8.9 million of cash through its operations, which primarily consisted of net income of $2.9 million, plus $0.7 million in changes in non-cash working capital, $3.5 million in amortization of capital assets and $1.1 million in amortization of capitalized software development costs. This compared to cash generated in fiscal 2002 operations of $1.9 million, which primarily consisted of a



net loss of $16.1 million, plus $2.7 million in changes in non-cash working capital, plus $11.1 million of goodwill amortization associated with the ComCoTec acquisition, $3.2 million in amortization of capital assets and $1.0 million in amortization of capitalized software development costs.

The Company utilized $2.5 million of cash resources in financing activities during fiscal 2003, which primarily consisted of a $14.3 million repayment of long-term liabilities, offset by $11.2 million from the new credit agreement with MCG. This compared to cash resources generated from financing activities in fiscal 2002 of $21.2 million, which primarily consisted of $11.9 million in net proceeds from its first quarter fiscal 2002 special warrant financing, a $13.0 million release of restricted cash in connection with the GATX sale and leaseback completed in the fourth quarter of fiscal 2001, and $1.8 million in advances on long-term borrowings. These were offset by repayments on long-term liabilities of $5.5 million.

The Company utilized $1.1 million of cash in investing activities during fiscal 2003, which consisted primarily of $2.5 million in capital expenditures, offset by $1.4 million in collections of long-term receivables. This compared to cash investments of $20.2 million during fiscal 2002, comprised primarily of the $24.8 million paid for the ComCoTec acquisition, and the purchase of $1.7 million of capital assets primarily to upgrade the service bureau computer systems at ComCoTec following the acquisition. This was offset by the $5.7 million reduction in short-term investments that were used to finance the above noted acquisition.

FISCAL 2002 ACQUISITIONS

Effective February 28, 2001, the Company acquired the business and substantially all of the assets and assumed certain liabilities of ComCoTec, Inc., a developer of software solutions and an application service provider for the United States pharmaceutical benefits industry, pursuant to an asset purchase agreement dated March 8, 2001.

The acquisition was accounted for by the purchase method, with goodwill to be amortized over two years. Management's assessment of the net assets acquired, and consideration paid, including $363,162 of expenses is more fully described in note 2 to the consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

CICA Handbook Section 1650 has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items, effective March 1, 2002, with a retroactive restatement of prior periods. The Company is not materially impacted by this change.

As more fully described in note 1(i) of the consolidated financial statements, as of December 1, 2002, the U.S. dollar became the Company's functional currency. Although the Company believes that following its acquisition of ComCoTec and the refinancing of its long-term debt, it has significantly reduced its net foreign transaction exposure with respect to its U.S. operations, by generating most of its revenues and expenses in U.S. currency, and by maintaining most of its assets and liabilities in U.S. currency, as a Canadian reporting issuer reporting in Canadian dollars, it will continue to have foreign exchange translation exposure. This translation exposure would be limited to the conversion into Canadian dollars of the Company's assets, liabilities, revenue and expense, without significantly impacting resulting net asset values or net income.

RECENT ACCOUNTING DEVELOPMENTS

The new accounting pronouncements applicable to the Company for fiscal 2003 are included in note 1 to the consolidated financial statements.

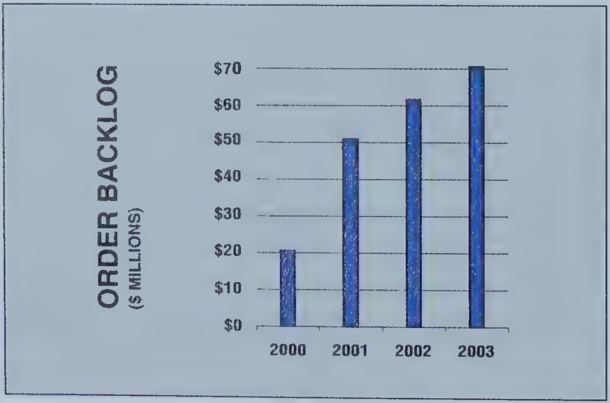
CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reported period. Significant judgement and estimates are used in determining the revenue recognition under the percentage-of-completion method, the amortization of capital assets, the valuation of goodwill, the value of stock based compensation and the valuation of future tax assets. Actual results could differ materially from those estimates and assumptions.

OUTLOOK

In fiscal 2003, we made significant progress in improving the Company's financial health during one of the most turbulent economic periods of recent memory. By increasing consolidated revenue by 21.9% or $8.6 million and in almost every revenue category, we demonstrated that both the demand for our services continues to be strong and that we were able to deliver on that demand.

Through our ASP/switching revenue, we continue to benefit from the growth in pharmaceutical drug use in the United States, which has grown 10-15% annually for the last several years. By many accounts, nearly 40% of that growth arises from the increased utilization of existing prescription drugs alone. As we have indicated in prior management discussions, we are focusing our business on increasing the transaction processing segment of our recurring revenue base to improve our visibility into our future. This past year we increased transaction processing revenue organically by 14% by both the increased penetration of existing customers and by bringing on important new clients. We are working aggressively to add new transaction processing clients to our existing managed care customer base. The capital investment we made in fiscal 2003 and will make in fiscal 2004 to our data center operations should enable us to process 30-50% more transactions per year and position us for further growth.



Closing large licensed software contracts in the current economic environment remains challenging, however, in the fourth quarter of fiscal 2003, we closed a multi-million contract with a related entity of an existing customer. Subject to achieving certain performance requirements, we expect to recognize the majority of the revenue from this contract in fiscal 2004. On the provider side, during this fiscal year we announced a new release of our state-of-the-art RxEXPRESS® for Windows® pharmacy systems product. We expect the strong reception of the product's features and functionality from the pharmacy community to begin translating into sales in fiscal 2004. Coupled with anticipated sales of our RxMAX™ and RxTRACK®, which were both previously bundled with our core RxCLAIM®-i product, we expect our licensed software revenue to further improve in fiscal 2004. (RxMAX™ provides our managed care customers the ability to autonomously manage their rebate contracts with pharmaceutical manufacturers and RxTRACK® enables our customers to more effectively analyze their benefit plans.)

For integration/consulting revenue, we were able to generate a 53.5% increase in fiscal 2003 over the prior year, attributed mainly to a successful RxCLAIM®-i implementation for one existing client. Although we expect the scale of this implementation to be significantly reduced in fiscal 2004, we are actively pursuing other similar engagements. Our inability to substantially replace this source of revenue with other sources could adversely affect our growth prospects in fiscal 2004.

During the year we announced the founding of our InformedRx business unit. The objective of this business is to capitalize on our expertise as a preferred provider of healthcare IT solutions to managed care organizations, by offering a greater mix of pharmacy benefit transaction-related services, such as pharmacy networks, mail-order and drug formulary management. We believe that we can offer these services at competitive rates. Though we recognize the relative start-up nature of this business compared to our core products, we are optimistic about its potential and expect modest revenue in fiscal 2004, followed by more significant growth in the future.

OUTLOOK (CONTINUED)

Our optimism for the growth of our newer payer and provider initiatives is in no small part due to our having attracted a number of talented individuals to the Company, all with significant industry experience in their respective areas. We expect these individuals to play a significant role in the growth of these businesses.

Our focus on cost control in fiscal 2003 will continue in fiscal 2004, although we expect to modestly increase our cost structure to support our new growth initiatives, primarily in the sales and customer support areas. We believe this growth in cost structure to be manageable and expect it to largely track our revenue growth.

As our balance sheet suggests, we ended fiscal 2003 with a much stronger cash and working capital position than the prior year. Our year-ended working capital of $9.3 million compared quite favourably to the prior year's negative $0.1 million. With the refinancing of our long-term debt in which we also acquired $2.0 million of additional cash and a $1.5 million line of credit, we believe we are now better positioned to execute and support our growth initiatives.

In discussing our financial goals for fiscal 2004, it is important to recognize that we ended fiscal 2003 on a particularly strong note. As with fiscal 2002, our fourth quarter revenue in fiscal 2003 was particularly strong due in part to our ability to recognize $1.2 million of licensed software revenue from both "tiered licensing" arrangements measured at calendar year-end and licensed software under contracts where certain acceptance criteria had been met. Also contributing to our strong year-end was our recognition of certain fixed price consulting arrangements totalling $0.4 million.

Factoring in the above discussion, for fiscal 2004 we have set the following financial targets:

Type	Range
Consolidated Revenue	$50-53 million
E.P.S. (basic)	$0.10-0.13

Achieving these financial targets is contingent upon our ability to continue to execute successfully on existing contracts, our ability to maintain an albeit reduced level of integration and consulting revenue compared to fiscal 2003, our ability to secure new ASP revenue, our ability to begin selling our RxEXPRESS® for Windows® product to larger accounts, our ability to begin providing our InformedRx service offering to managed care organizations, and our ability to maintain appropriate levels of cost control.

We look forward to continuing to work hard for our shareholders, customers and other stakeholders and to delivering on the goals we set for ourselves.

This report contains forward-looking statements. Any statements contained herein that are not historical facts may be deemed to be forward-looking statements. There are a number of important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include, but may not be limited to: adverse changes in general economic conditions, adverse changes in the specific markets for the Company's products, adverse business conditions, increased competition, lack of acceptance of new products, lack of success in technology advancements, risks associated with fluctuations in the US dollar relative to the value of the Canadian dollar and the continued ability of the Company to continue to attract skilled technology staff.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are outside directors. The Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the Annual Report, the consolidated financial statements and the external Auditors' Report. The Committee reports its findings to the Board for consideration when approving the consolidated statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee. The accompanying financial statements and all of the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management had determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the consolidated financial statements.

Systems Xcellence Inc. maintains systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

Gordon S. Glenn
President and
Chief Executive Officer

April 11, 2003

Irwin P. Studen
Senior Vice-President, Finance and
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Systems Xcellence Inc. as at February 28, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
April 11, 2003

CONSOLIDATED BALANCE SHEETS (EXPRESSED IN CANADIAN DOLLARS)

February 28, 2003 and 2002

	2003	2002 (Restated - note 1(i)(iii))
Assets		
Current assets:		
Cash and cash equivalents (note 10)	$ 10,137,400	$ 4,835,824
Accounts receivable	8,567,624	6,563,291
Prepaid expenses	712,351	816,407
Current portion of long-term receivable (note 3)	534,240	1,274,833
	19,951,615	13,490,355
Long-term receivable (note 3)	–	708,204
Capital assets (note 4)	6,590,063	7,850,359
Capitalized product development	–	1,082,886
Deferred charges	457,367	221,783
Goodwill (note 5)	10,541,189	11,069,669
	$ 37,540,234	$ 34,423,256
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,026,464	$ 3,800,631
Deferred revenue	5,674,459	3,609,933
Current portion of long-term liabilities (note 6)	953,608	6,198,248
	10,654,531	13,608,812
Long-term liabilities (note 6)	11,871,129	10,239,893
Shareholders' equity:		
Capital stock (note 7(a))	41,440,473	39,897,323
Warrants (note 7(b))	490,000	550,000
Cumulative translation account (note 1(i)(ii))	64,689	–
Deficit	(26,980,588)	(29,872,772)
	15,014,574	10,574,551
Commitments and contingencies (note 11)		
	$ 37,540,234	$ 34,423,256

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Michael J. Callaghan, Director **Kevin R. Brown, Director**

CONSOLIDATED STATEMENTS OF OPERATIONS (EXPRESSED IN CANADIAN DOLLARS)

Years ended February 28, 2003 and 2002

	2003	2002
		(Restated-note 1(i)(iii))
Revenue	$ 47,646,687	$ 39,083,933
Project costs	22,386,376	17,382,176
Gross profit	25,260,311	21,701,757
Expenses:		
Product development costs	5,520,481	8,140,948
Selling, general and administration	9,691,698	10,894,513
	15,212,179	19,035,461
Net interest:		
Income	(72,905)	(455,217)
Expense	1,581,677	2,300,456
	1,508,772	1,845,239
Income before the undernoted	8,539,360	821,057
Other charges:		
Amortization	4,999,675	4,287,436
Restructuring	–	1,547,321
Write-down of capital assets	423,570	–
	5,423,245	5,834,757
Income (loss) before income taxes and amortization of goodwill	3,116,115	(5,013,700)
Income taxes (note 8)	223,931	30,227
Income (loss) before amortization of goodwill	2,892,184	(5,043,927)
Amortization of goodwill (note 1(f))	–	(11,069,667)
Net income (loss)	$ 2,892,184	$ (16,113,594)
Basic and diluted (note 9):		
Income (loss) per share before amortization of goodwill	$ 0.07	$ (0.15)
Income (loss) per share	0.07	(0.49)

CONSOLIDATED STATEMENTS OF DEFICIT (EXPRESSED IN CANADIAN DOLLARS)

Years ended February 28, 2003 and 2002

	2003	2002
		(Restated-note 1(i)(iii))
Deficit, beginning of year:		
As previously reported	$ (30,000,902)	$ (13,931,092)
Adjustment to reflect change in accounting policy (note 1(i)(iii))	128,130	171,914
As restated	(29,872,772)	(13,759,178)
Net income (loss)	2,892,184	(16,113,594)
Deficit, end of year	$ (26,980,588)	$ (29,872,772)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (EXPRESSED IN CANADIAN DOLLARS)

Years ended February 28, 2003 and 2002

	2003	2002 (Restated - note 1(i)(iii))
Cash provided by (used in):		
Operations:		
Net income (loss)	$ 2,892,184	$ (16,113,594)
Items not involving cash:		
Amortization of capital assets	3,523,181	3,224,110
Amortization of goodwill	–	11,069,667
Amortization of deferred charges	336,706	64,628
Amortization of capitalized product development costs	1,139,788	998,698
Write-down of capital assets	423,570	–
Gain on disposal of capital assets	–	(12,116)
Foreign exchange gain	(136,982)	(75,339)
Change in non-cash operating working capital (note 10)	703,373	2,731,401
Cash provided by operations	8,881,820	1,887,455
Financing:		
Proceeds from exercise of options and warrants	739,859	11,926,187
Proceeds from new warrants	490,000	–
Repurchase of warrants	(60,000)	–
Reduction of restricted cash	–	13,000,000
Increase in deferred charges	(577,282)	(27,819)
Proceeds from long-term liabilities	11,210,834	1,762,098
Repayment of long-term liabilities	(14,347,715)	(5,466,077)
Cash provided by (used in) financing	(2,544,304)	21,194,389
Investments:		
Short-term investments	–	5,679,666
Reduction in long-term receivable	1,389,359	191,428
Purchase of capital assets	(2,488,392)	(1,717,052)
Business acquisition, net of cash acquired (note 2)	–	(24,760,099)
Proceeds from disposal of capital assets	–	360,667
Cash used in investments	(1,099,033)	(20,245,390)
Increase in foreign cash due to exchange rate changes	63,093	69,949
Increase in cash and cash equivalents	5,301,576	2,906,403
Cash and cash equivalents, beginning of year	4,835,824	1,929,421
Cash and cash equivalents, end of year	$ 10,137,400	$ 4,835,824

Supplemental cash flow information (note 10)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (EXPRESSED IN CANADIAN DOLLARS)

Years ended February 28, 2003 and 2002

Systems Xcellence Inc. (the "Company") designs, develops and installs electronic transaction processing software solutions and provides Application Service Provider ("ASP") services for the pharmaceutical benefits supply chain within the healthcare industry.

1. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Company conform to those generally accepted in Canada. Significant accounting policies are summarized below:

(a) Consolidated financial statements:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents:

The Company considers deposits in banks, bank term deposits and short-term investments with original maturities of 90 days or less as cash and cash equivalents.

(c) Revenue recognition:

The Company's revenue is comprised of software licenses, consulting services (which may include development and integration services), maintenance, ASP, and switching services.

The Company recognizes revenue in accordance with Section 3400 of The Canadian Institute of Chartered Accountants ("CICA") Handbook and has applied relevant U.S. accounting standards, including The American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition", SOP 98-9 "Modification of SOP 97-2, Software Recognition, with Respect to Certain Transactions" SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" and the SEC staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements".

Revenue from software licenses is recognized when the Company has an executed license agreement with the customer, the software has been delivered, the amount of the fees is fixed and determinable and the collection of these fees is probable.

Software license arrangements, which involve significant customization services, are evaluated to determine whether these services are essential to the functionality of the software license. When such services are considered essential, the license and services revenues of such arrangements are recognized as the services are performed on the following bases:

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Fixed price contracts:

On a percentage-of-completion method of accounting, which recognizes revenue proportionately with the degree of completion of the services under the contract. The degree of completion is determined by reference to total costs incurred relative to total estimated costs.

(ii) Time and materials contracts:

Upon delivery of the services.

Integration and consulting services are performed either on a fixed price contract basis or a time and materials contract basis and revenues are recognized on the same basis as noted above.

The Company recognizes maintenance fees as revenue on a straight-line basis over the term of the agreement.

Revenue for ASP and switching services is recognized as services are provided.

Revenue recognized in excess of amounts billed is reported as contracts in progress. Billings in excess of revenue recognized are recorded as deferred revenue.

(d) Deferred charges:

Deferred charges consist of debt issue expenses which are amortized over the six-year term of the debt.

(e) Capital assets:

Capital assets are stated at cost less accumulated amortization. Capital assets, including assets under capital leases are amortized on the following bases and annual rates:

Asset	Basis	Rate
Buildings	Straight line	5%
Furniture and equipment	Declining balance	20%
Software	Straight line	Over three years
Computer equipment	Straight line	Over three years
Leasehold improvements	Straight line	Over lease term

The Company reviews capital assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of capital assets is assessed by comparison of the carrying amount to the projected future net cash flows the capital assets are expected to generate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended February 28, 2003 and 2002

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Goodwill:

Effective March 1, 2002, the Company adopted the new recommendations of the CICA Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062"). The new standards require that goodwill and indefinite life intangible assets no longer be amortized but tested for impairment at least annually. The standards also specify criteria that intangible assets must meet to be recognized and reported apart from goodwill.

The Company has adopted these new standards as at March 1, 2002, and discontinued amortization of all existing goodwill. Goodwill is allocated to reporting units and any potential goodwill impairment is identified by comparing the carrying value of a reporting unit with its fair value. If any potential impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, based on the fair value of the assets and liabilities of the reporting unit. Section 3062 requires completion of a transitional goodwill impairment evaluation within six months of adoption. Under Section 3062 any transitional impairment loss would be recognized as a charge to opening deficit at March 1, 2002.

During 2002, the Company completed its transitional goodwill impairment test and determined that no impairment existed at the date of adoption. The Company also tested goodwill for impairment at February 28, 2003 and determined no impairment existed.

This change in accounting policy is not applied retroactively and the amounts presented for prior period have not been restated for this change.

Prior to the adoption of Section 3062, goodwill recorded at the date of acquisition was amortized on a straight-line basis over two years. Goodwill was reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. Goodwill was written-down to fair value when declines in value were considered to be other than temporary based upon expected undiscounted cash flows from the operations acquired.

(g) Research and product development:

Research costs are charged to income in the year in which they are incurred.

Product development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. All software development costs which meet the criteria are capitalized and subsequently reported at the lower of amortized cost and net realizable value. The capitalization of costs that meet the criteria ceases and amortization begins once the product is available for general release. Amortization of costs is on a straight-line basis over the expected life of the product, not exceeding three years.

As at February 28, 2003, all product development costs capitalized in prior years have been fully amortized.

Scientific research investment tax credits are offset from the related costs, provided there is reasonable assurance the benefits will be realized.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Stock-based compensation plan:

Effective March 1, 2002, the Company adopted the new recommendations of the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"), which requires that a fair value-based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, awards that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Section 3870 permits the Company to continue its existing policy of treating all other employee and director stock options as capital transactions (the settlement method), but requires pro forma disclosure of net income and per share information as if the Company has accounted for these stock options under the fair value method (note 7(e)). No restatement of prior periods is required as a result of the adoption of the new recommendations.

(i) Foreign currency translation:

(i) Change in functional currency:

As at December 1, 2002, the U.S. dollar became the functional currency of the Company. The change resulted from the increased significance of U.S. dollar- denominated transactions, assets and liabilities in relation to the Company's Canadian dollar-denominated transactions, assets and liabilities. In addition, the Company financings in the latter part of the year have been denominated in U.S. dollars.

Effective December 1, 2002, the Company translates transactions in foreign currencies other than the U.S. dollar at the exchange rate in effect on the transaction date. Monetary assets and liabilities of the Company denominated in foreign currencies are translated into U.S. dollars at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at the historical exchange rates. Transactions included in operations are translated at the average exchange rates for the year. Exchange gains and losses resulting from the translation of these transactions are reflected in the consolidated statement of operations in the year in which they occurred.

Prior to December 1, 2002, the functional currency of the Company was the Canadian dollar. Accordingly, monetary assets and liabilities of the Company denominated in foreign currencies were translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities were translated at the historical exchange rates. Transactions included in operations were translated at the average exchange rates for the year. Exchange gains and losses resulting from the translation of these transactions were reflected in the consolidated statement of operations in the year in which they occurred.

(ii) Reporting currency:

The Company's reporting currency continues to be the Canadian dollar. Effective December 1, 2002, the Company translates assets and liabilities denominated in U.S. dollars to Canadian dollars at the exchange rate prevailing at the balance sheet dates, and the results of operations at the average rate for the year. The resulting translation gain or loss is included in the cumulative translation account, which is presented as a separate component of shareholders' equity.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

(iii) Change in accounting policy:

Effective March 1, 2002, the Company adopted the recommendations of the revised CICA Handbook Section 1650, "Foreign Currency Translation" ("Section 1650") which eliminates the deferral and amortization of foreign currency translation gains and losses on long-term monetary items with a fixed or ascertainable life. Exchange gains and losses on long-term monetary items are now included in income.

At February 28, 2002, the Company had an unamortized foreign exchange gain of $128,130 included in accounts payable and accrued liabilities. Upon adoption, accounts payable and accrued liabilities has been reduced by this amount, with a corresponding decrease in opening deficit as at March 1, 2002. Section 1650 also requires restatement of prior periods, the effect of which was to increase the reported loss by $43,784 for the year ended February 28, 2002 and to decrease the deficit at March 1, 2001 by $171,914, to reflect the effect of the change.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(k) Income (loss) per share:

Basic income per share is computed by dividing net income by the weighted average shares outstanding during the year. Diluted income per share is computed similar to basic income per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that the proceeds from the exercise of in-the-money stock options and warrants were used to acquire shares of common stock at the average market price during the year.

(l) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(l) Income taxes (continued):

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment.

2. BUSINESS ACQUISITION:

Pursuant to an asset purchase agreement dated March 8, 2001, the Company acquired the business and substantially all of the assets and assumed certain liabilities of ComCoTec, Inc., a developer of software solutions and an application service provider for the United States pharmaceutical benefits industry.

The acquisition was accounted for by the purchase method. The net assets acquired, and consideration paid, including $363,162 of expenses are as follows:

Working capital	$ 1,009,329
Capital assets	1,611,434
Goodwill	22,139,336
	$ 24,760,099
Consideration given:	
Cash	$ 24,396,937
Costs of acquisition	363,162
	$ 24,760,099

3. LONG-TERM RECEIVABLE:

The long-term receivable which arose from the sale of product and services to a customer in Argentina, is denominated in U.S. dollars and is due in monthly installments of U.S. $50,000. The receivable has been insured by the Export Development Corporation ("EDC") to a maximum amount of 80% of any outstanding balance. Given the uncertain economic conditions in Argentina, the Company has recorded a provision for the uninsured portion. The receivable was provided as security for the Company's bank term indebtedness, which was repaid during the year (note 6(e)).

	2003	2002
Current	$ 534,240	$ 1,274,833
Long-term	–	708,204
	$ 534,240	$ 1,983,037

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended February 28, 2003 and 2002

4. CAPITAL ASSETS:

2003	Cost	Accumulated amortization	Net book value
Land	$ 557,443	$ –	$ 557,443
Buildings	3,806,043	1,367,609	2,438,434
Furniture and equipment	1,532,156	934,346	597,810
Software	2,785,923	1,978,095	807,828
Computer equipment	5,233,454	3,661,449	1,572,005
Computer equipment under capital lease	5,314,960	4,965,167	349,793
Leasehold improvements	427,666	160,916	266,750
	$ 19,657,645	$ 13,067,582	$ 6,590,063

2002	Cost	Accumulated amortization	Net book value
Land	$ 525,063	$ –	$ 525,063
Buildings	3,486,467	1,029,683	2,456,784
Furniture and equipment	1,418,913	731,021	687,892
Software	2,312,004	1,065,122	1,246,882
Computer equipment	3,965,212	2,099,000	1,866,212
Computer equipment under capital lease	5,006,234	4,130,217	876,017
Leasehold improvements	260,656	69,147	191,509
	$ 16,974,549	$ 9,124,190	$ 7,850,359

5. GOODWILL:

	U.S. dollars	Canadian dollars
Goodwill, opening balance	7,103,227	11,069,669
Impact of change in the Company's functional currency (note 1(i)(i) and (i)(ii))	–	528,480
Goodwill, closing balance	7,103,227	10,541,189

6. LONG-TERM LIABILITIES:

2003			Current		Long-term		Total
Capital leases	(a)	$	858,052	$	2,528	$	860,580
Long-term debt	(b)		–		10,824,957		10,824,957
Mortgage	(c)		95,556		1,043,644		1,139,200
		$	953,608	$	11,871,129	$	12,824,737

2002			Current		Long-term		Total
Capital leases	(a)	$	1,750,121	$	915,897	$	2,666,018
Financing agreements	(d)		3,114,120		8,184,796		11,298,916
Mortgage	(c)		88,892		1,139,200		1,228,092
Term loan	(e)		1,245,115		–		1,245,115
		$	6,198,248	$	10,239,893	$	16,438,141

(a) Capital leases denominated in U.S. dollars at February 28, 2003 amounted to $508,427 (2002 - $1,069,000).

(b) MCG Capital Corporation:

On December 27, 2002, the Company entered into a Credit Facility Agreement (the "Agreement") with MCG Capital Corporation ("MCG"). The credit facility consists of a U.S. $1,000,000 revolving line of credit and a U.S. $7,600,000 term loan. The credit facility matures on December 27, 2008. At February 28, 2003, the Company had not drawn on the line of credit.

The term loan bears interest at a base rate (LIBOR or U.S. Prime rate) plus a rate margin to be determined as of the first date of each interest period, contingent on the Company's leverage ratio at that time. The base rate is capped for the first three years of the Agreement. For the first two years, the Company will make quarterly interest only payments, and thereafter, quarterly interest and amortized principal payments of U.S. $380,000 until maturity.

The credit facility is a senior secured arrangement, secured by the Company's U.S. subsidiary and guaranteed by the Company.

(c) The mortgage is secured by land and building, is amortized over 10 years and matures on March 31, 2006. The mortgage bears interest at 6.8% and requires monthly payments of $14,276 including principal and interest.

6. LONG-TERM LIABILITIES (CONTINUED):

(d) GATX Capital Canada Inc.:

On December 30, 1997, the Company entered into a long-term sale and lease agreement with GATX Capital Canada Inc. ("GATX"). Monthly payments under the agreement were $124,488, including principal and interest at a rate of 11.06%. On December 29, 2000, the Company entered into a second long-term sale and lease agreement with GATX. Monthly payments under the agreement were $274,166, including principal and interest at a rate of 12.59%. The lease agreements were secured by certain of the Company's internally developed software.

Pursuant to a Transfer, Termination and Discharge Agreement dated December 30, 2002 between the Company and GATX, the Company settled the lease obligation to GATX with a cash payment of $9,066,000. As a result of the settlement of the financing, the Company recognized a gain of $27,290, being the difference between the consideration paid on settlement and the carrying value of the long-term debt.

(e) The Company borrowed $1,762,098 on a one-year term loan facility which was secured by an assignment of insurance on the long-term receivable. The term loan bore interest at prime plus 1%. During the year ended February 28, 2003, the loan was fully repaid.

Principal repayments required for long-term liabilities are as follows:

	Capital leases	MCG
2004	$ 894,890	$ –
2005	2,544	1,127,840
2006	–	2,255,680
2007	–	2,255,680
2008	–	2,255,680
Thereafter	–	2,930,077
	897,434	10,824,957
Less interest at rates between 8.25% and 12.59%	36,854	–
	$ 860,580	$ 10,824,957

The following have been included in interest expense:

	2003	2002
Long-term liabilities	$ 1,536,318	$ 2,197,671
Other indebtedness	45,359	102,785
	$ 1,581,677	$ 2,300,456

7. CAPITAL STOCK:

(a) Common shares:

(i) Authorized:

Unlimited voting common shares

(ii) Issued:

	Number of shares	Amount
Balance, February 28, 2001	21,017,177	$ 27,971,136
Exercise of special warrants	17,863,945	11,926,187
Balance, February 28, 2002	38,881,122	39,897,323
Exercise of compensation warrants	1,050,333	735,234
Shares issued in lieu of bonus	591,116	313,291
Exercise of options	7,500	4,625
Repurchase of warrants (b)(ii)	–	490,000
Balance, February 28, 2003	40,530,071	$ 41,440,473

(b) Warrants:

(i) On March 8, 2001, the Company issued 12,863,945 Class A Special Warrants and 5,000,000 Class B Special Warrants on a private placement basis. The Special Warrants were sold to investors at a price of $0.70 per Class A Special Warrant and $0.80 per Class B Special Warrant for gross proceeds of $13,004,761. After deducting the agent's fee and expenses of issue, the net proceeds to the Company were $11,926,187. Each Class A and Class B Special Warrant entitled the holder thereof to acquire, without additional payment and subject to adjustment pursuant to the Special Warrant Indenture, one common share and one-third of one Purchase Warrant. Each Purchase Warrant entitles the holder thereof to purchase, subject to adjustment, one common share at a price of $1 per share at any time prior to March 8, 2003. As additional consideration for services rendered in connection with the private placement, the underwriter received Compensation Warrants to purchase up to 1,250,476 common share units at a price of $0.70 per unit. Each common share unit consists of one common and one-third of one Purchase Warrant. On July 6, 2001, 17,863,945 common shares and 5,954,648 common share Purchase Warrants were issued on exercise of all Class A and Class B Special Warrants.

The warrants outstanding are as follows:

	Purchase warrants	Compensation warrants
Balance, beginning of year	5,954,648	1,250,476
Exercise of compensation warrants	350,111	(1,050,333)
Balance, end of year	6,304,759	200,143

7. CAPITAL STOCK (CONTINUED):

On March 8, 2003, the outstanding purchase warrants and compensation warrants expired unexercised.

(ii) Pursuant to a warrant agreement entered into with GATX on December 29, 2000, the Company issued 925,926 warrants to subscribe for and purchase 925,926 common shares at a price of $1.1232 per share. The warrants were exercisable in whole or in part, expire on December 29, 2005 and were considered to have a value of $550,000 at the date of issue. During the year, the outstanding warrants were repurchased for $60,000. The difference of $490,000 has been recorded as capital stock.

(iii) Pursuant to a warrant agreement entered into with GATX on December 30, 1997, the Company issued 259,341 warrants to subscribe for and purchase 259,341 common shares at a price of $1.82 per share. The warrants were exercisable in whole or in part, expired unexercised on December 30, 2002 and were considered to have nominal value at the date of issue.

(iv) Pursuant to a warrant agreement entered into with MCG Capital Corporation, the Company issued 1,250,000 warrants to subscribe for and purchase 1,250,000 common shares of the Company at an exercise price of $0.64 per warrant. The warrants are exercisable in whole or in part, expire on December 27, 2007 and have been recorded at their estimated fair value of $490,000.

(c) Shareholders' Rights Plan:

The Company has adopted a Shareholders' Rights Plan (the "Rights Plan") to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum value for their investment and are given adequate time to properly assess the take-over bid on a fully informed basis. The Rights Plan grants shareholders the right to acquire, under certain circumstances, additional common shares at a discount from their then current market price. The Company, at its option, may redeem each right at a nominal price or waive application of the Rights Plan.

(d) Share purchase options:

The Company has a fixed stock option plan. Under the terms of the plan, the Company may grant options from time to time to its officers, directors, key employees and service providers and any affiliate or subsidiary of the Company for up to 5,750,000 shares of common stock. The exercise price of each option shall be set at the time the option is granted and shall not be lower than the market price of the Company's common shares at the time. An option's maximum life under the Company's option plan is five years.

7. CAPITAL STOCK (CONTINUED):

	2003		2002	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,796,169	$ 1.12	3,144,671	$ 1.51
Granted	1,552,500	0.43	1,784,000	0.62
Exercised	(7,500)	0.62	–	–
Expired	(76,724)	1.21	(194,834)	1.72
Cancelled	(447,000)	1.08	(937,668)	1.31
Outstanding, end of year	4,817,445	0.90	3,796,169	1.12
Options exercisable, end of year	3,271,106	1.09	2,634,505	1.29

The following table summarizes the information about the stock options outstanding at February 28, 2003:

Range of exercise prices	Number outstanding, February 28, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable February 28, 2003	Weighted average exercise price
$0.30 - $0.80	3,474,000	4.95	$ 0.55	1,927,661	$ 0.58
$0.81 - $1.85	1,068,445	2.49	1.55	1,068,445	1.55
$1.86 - $3.05	275,000	2.75	2.81	275,000	2.81
$0.30 - $3.05	4,817,445	4.28	0.90	3,271,106	1.09

(e) Pro forma stock-option disclosure:

For companies electing not to adopt the fair value measurement for stock-based compensation, the Section 3870 accounting pronouncement requires the disclosure of pro forma net income and net income per share information. A summary of the required pro forma disclosure of the impact on the consolidated statements of operations is presented in the table below:

Net income, as reported	$	2,892,184
Compensation expense related to the fair value of stock options		(122,748)
Pro forma net income	$	2,769,436
Pro forma income per share: Basic and diluted	$	0.07

7. CAPITAL STOCK (CONTINUED):

The fair value of each option has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used: dividend yield of 0%, expected volatility of 68%, risk-free rate of return of 2.75% and an expected life of the option of five years. The pro forma effect of options granted prior to March 1, 2002 has not been included.

The Company has assumed no forfeiture rate, as adjustments for actual forfeitures are made in the year they occur. The weighted average grant date fair value of options issued in the year ended February 28, 2003 was $0.43.

8. INCOME TAXES:

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows.

	2003	2002
Future income tax assets:		
Non-capital loss carryforwards	$ 4,418,000	$ 6,119,000
Deductible research and development expenses	2,021,000	2,190,000
Future deductible lease payments	41,000	5,202,000
Goodwill	2,401,000	3,924,000
Capital assets	4,598,000	–
Other	1,842,000	827,000
	15,321,000	18,262,000
Less valuation allowance	15,309,000	17,415,000
Total future tax assets	12,000	847,000
Future income tax liabilities:		
Capital assets	–	397,000
Deferred charges	12,000	–
Capitalized product development	–	450,000
Total future tax liabilities	12,000	847,000
Net future income tax assets	$ –	$ –

At February 28, 2003, the Company has loss carryforwards available to reduce future years' taxable income, the tax effect of which has not been recorded in the accounts, which expire as follows:

	Canada	U.S.A.	Total
2007	$ 1,455,000	$ –	$ 1,455,000
2008	615,000	–	615,000
2010	6,367,000	–	6,367,000
2011	2,041,000	–	2,041,000
2012 - 2022	–	1,011,000	1,011,000
	$ 10,478,000	$ 1,011,000	$ 11,489,000

The differences between the effective tax rate reflected in the provision for income taxes and the statutory income tax rate are as follows:

8. INCOME TAXES (CONTINUED):

	2003	2002
Corporate statutory rate	38.3 %	(41.1)%
Tax effect of:		
U.S. income taxes	1.9 %	2.7 %
Other	34.6 %	(1.5)%
Valuation allowance	(67.6)%	40.1 %
	7.2 %	0.2 %

9. INCOME (LOSS) PER SHARE:

	2003	2002 (Restated - note 1(i)(iii))
Numerator:		
Income (loss) before goodwill amortization	$ 2,892,184	$ (5,043,927)
Net income (loss)	2,892,184	(16,113,594)
Denominator:		
Weighted average number of shares:		
Basic	39,116,745	32,616,506
Diluted	39,646,690	32,616,506
Income (loss) per share before goodwill amortization:		
Basic	$ 0.07	$ (0.15)
Diluted	0.07	(0.15)
Income (loss) per share:		
Basic	0.07	(0.49)
Diluted	0.07	(0.49)

10. SUPPLEMENTAL CASH FLOW INFORMATION:

(a) The components of cash and cash equivalents are as follows:

	2003	2002
Cash on deposit	$ 443,600	$ 1,598,704
Bank term deposits:		
Canadian dollar deposits	1,235,000	2,600,000
U.S. dollar deposit (U.S. $5,700,000; 2002 - U.S. $400,000)	8,458,800	637,120
	$ 10,137,400	$ 4,835,824

(b) Change in non-cash operating working capital:

	2003	2002
Accounts receivable	$ (2,004,333)	$ 1,757,343
Contracts in progress	–	1,689,525
Inventories	–	26,508
Prepaid expenses	104,056	314,058
Accounts payable and accrued liabilities	539,124	(1,274,175)
Deferred revenue	2,064,526	218,142
	$ 703,373	$ 2,731,401

10. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED):

(c) Cash paid (received) for income taxes and interest is as follows:

	2003	2002
Income taxes paid	$ 146,164	$ 59,973
Interest paid	1,568,894	2,300,956
Interest received	(72,905)	(606,974)

(d) Supplemental disclosure of non-cash investing activities:

	2003	2002
Capital lease obligations incurred for purchase of capital assets	$ –	$ 108,499
Payment of accrued bonus through share issuance	313,291	–

11. COMMITMENTS AND CONTINGENCIES:

Aggregate minimum payments in respect of operating lease commitments for premises and office equipment as at February 28, 2003 are as follows:

2004	$ 1,066,071
2005	727,775
2006	670,456
2007	661,848
2008	661,848
Thereafter	2,905,576
	$ 6,693,574

In the normal course of business, the Company has been the subject of legal claims. Management believes that adequate provision has been made for these claims.

12. SEGMENTED INFORMATION:

The Company operates in a single reportable operating segment, which is providing transaction processing solutions to the pharmaceutical benefits industry. The Company operates in two geographic areas as follows:

2003	Canada	U.S.	Total
Total sales to customers	$ 1,321,138	$ 46,325,549	$ 47,646,687
Capital assets	3,535,354	3,054,709	6,590,063
Goodwill	–	10,541,189	10,541,189

2002	Canada	U.S.	Total
Total sales to customers	$ 1,794,147	$ 37,289,786	$ 39,083,933
Capital assets	4,116,034	3,734,325	7,850,359
Goodwill	–	11,069,669	11,069,669

12. SEGMENTED INFORMATION (CONTINUED):

Canadian operations include export sales of $227,522 in 2003 (2002 - $322,031) to customers outside North America.

The Company's revenue breaks down into the following components:

	2003	2002
Products and services:		
Integration and consulting	$ 18,526,383	$ 12,493,918
Maintenance	12,952,002	11,681,817
ASP/switching	10,258,389	9,069,302
Software licenses	5,909,913	5,838,896
	$ 47,646,687	$ 39,083,933

The Company's two largest customers accounted for 28.5% and 9.1% of the Company's total sales for the year ended February 28, 2003 (2002 - 18.3% and 12.0%). At February 28, 2003, the two largest customers accounted for 12.8% and 11.1% of the accounts receivable balance (2002 - 12.9% and 12.4%).

13. FINANCIAL INSTRUMENTS:

(a) Credit risk:

The Company is subject to concentrations of credit risk through cash and cash equivalents, accounts receivable and long-term amounts receivable due to the limited number of counterparties. Management monitors the credit risk and credit standing of counterparties on a regular basis. Cash and cash equivalents and accounts receivable are with financial institutions and large corporations. The Company has insured 80% of the credit risk of the long-term receivable through the EDC.

(b) Fair values:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity. The carrying values of the long-term receivable and long-term liabilities approximate their fair values as the interest rates approximate rates currently available to the Company.

(c) Foreign exchange risk:

The Company is subject to foreign exchange risk. The Company does not enter into derivative instruments to mitigate this risk. Exposure to fluctuations in Canadian-dollar denominated transactions is partially offset by Canadian-denominated assets and liabilities.

Since the Company's functional currency is the U.S. dollar and its reporting currency is the Canadian dollar, the Company is also exposed to fluctuations in the U.S. dollar relative to the Canadian dollar. Fluctuations in U.S. dollar revenues and assets are substantially offset by U.S. dollar expenses and liabilities, respectively.

DEFINE YOUR GOALS

CORPORATE STARS PROGRAM

XCELLENCE IN PERFORMANCE

Recognizing Those Who Made a Difference

JEFF KOEPPEN - FIRST QUARTER WINNER

Jeff has been with SXC for over a year and in that short time has proven to be very devoted individual. As a Sr. Application Developer, Jeff has been very instrumental in assisting with key projects and has become a valuable asset with his work on the complex RxCLAIM® pricing system and RxSUPPORT. Jeff was selected because he is exceptionally dedicated to SXC, pleasant to work with and has always been very encouraging to all those around him, showing all the qualities of a Corporate Star winner.

MARK MEREDITH - SECOND QUARTER WINNER

Mark has been a vital member of the SXC team for just over two years and has demonstrated to be a very productive individual. As a Senior Technical Consultant, Mark has demonstrated that his diverse background has made him a vital member to many unique and significant projects at SXC. Mark has been chosen because of his strong sense of commitment, his rich technical skill set and the respect he garners from his peer group. These traits that Mark exhibits have enabled SXC to complete many demanding projects on-time and with precision, showing all the qualities of a Corporate Star winner

SARAH TEITELBAUM - THIRD QUARTER WINNER

Although Sarah has only been with SXC for a short time, she has already become a resource for the other people in her department. As a Client Relationship Coordinator, Sarah started working on a critical implementation closely with the other members of the implementation team, with the client and with the developers to assist during the go-live. Sarah has been praised by SXC associates as well as by SXC clients for her follow-up, attention to detail, and ability to deliver results. Sarah was selected based on her unique set of skills and her dedication, showing all the qualities of a Corporate Star winner.

DANIEL SULLIVAN - FOURTH QUARTER WINNER

Having been with SXC for over 13 years, Dan has been considered the ultimate resource in SXC's development and maintenance of the RxEXPRESS® system. As a Senior Applications Developer, Dan continues to support legacy clients promptly, while utilizing his past experience in assisting with the ongoing design and development of new products and interfaces. Dan was selected because of his long-tem dedication to the company and extensive product knowledge, showing all the qualities of a Corporate Star winner.

The Corporate Stars program was developed to recognize and reward those individuals across the company whose personal contributions resulted in extraordinary achievements at SXC. On a quarterly basis, throughout fiscal 2003, employees were encouraged to nominate any co-workers whom they felt were outstanding in serving one or more of our key corporate stakeholders.

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Management Initiatives Inc.

a= Audit Committee
c= Compensation Committee

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Website: www.sxc.com

ComCoTec SXC Systems Xcellence

This report contains forward-looking statements. Any statements contained herein that are not historical facts may be deemed to be forward-looking statements. There are a number of important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include, but may not be limited to: adverse changes in general economic conditions, adverse changes in the specific markets for the Company's products, adverse business conditions, increased competition, lack of acceptance of new products, lack of success in technology advancements, risks associated with fluctuations in the US dollar relative to the value of the Canadian dollar and the continued ability of the Company to continue to attract skilled technology staff.

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